



Q4
2019
(UNAUDITED)



SPAREBANKEN SØR
BOLIGKREDITT AS

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General

Sparebanken Sør Boligkreditt AS is a wholly-owned subsidiary of Sparebanken Sør, and the company's business is operated from Kristiansand. The company is licensed by the Financial Supervisory Authority of Norway to operate as a mortgage company and issue covered bonds, and is a part of Sparebanken Sør's long-term financial strategy. All shares are owned by Sparebanken Sør and the financial statements are consolidated into the financial statements of the Sparebanken Sør Group.

The cover pool consists of secured mortgages, interest bearing securities and financial derivatives. The mortgages are granted by Sparebanken Sør and later taken over by Sparebanken Sør Boligkreditt AS. The secured mortgages meet the requirements established by the company for inclusion in the company's cover pool. One important requirement is that any outstanding loan balance taken over by the company must not exceed 75 % of the mortgaged property's market value at the date of acquisition.

At the end of Q4 2019 Sparebanken Sør Boligkreditt AS had taken on a mortgage loan portfolio totalling NOK 40 210 million, transferred from Sparebanken Sør, of which NOK 40 007 million is included in the qualified cover pool. Corresponding figures at the end of Q4 2018 were NOK 38 737 million and NOK 38 646 million respectively.

Sparebanken Sør Boligkreditt AS has issued covered bonds totalling NOK 36 701 million, compared to NOK 36 014 million at the same time in 2018. The company has achieved a diversified funding by issuing covered bonds outside the Norwegian bond market.

Income statement and balance sheet

In Q4 2019 the financial statement of Sparebanken Sør Boligkreditt AS shows a profit after tax of NOK 235.3 million, compared to NOK 211.7 million in the same period in 2018.

The company had net interest income of NOK 408.8 million, compared to NOK 378.7 million in 2018. The increase in net interest income is mainly due to the increase in the mortgage portfolio, combined with an increase in interest rates on mortgages in the period.

The company has issued cover bonds in Euros under the EMTCN (European Medium Term Covered Note) program. In order to control interest and currency exposure, the company has established swap arrangements (basis swaps), to convert foreign currency into NOK. The impact on earnings related to changes in the value of the basis swap, affected the income from financial instruments by NOK 17.8 million at the end of Q4 2019. Assuming that the cover bonds in foreign currency are held to maturity, the total change in fair value is equal to zero. The accounting effects will therefore be reversed over time.

Operating expenses were NOK 78.5 million and tax expenses were NOK 78.5 million at the end of Q4 2019. Corresponding figures at the end of Q4 2018 were NOK 71.1 million and NOK 70.6 million respectively.

Total assets at 31.12.2019 were NOK 44 280 million, of which net loans to customers represented NOK 40 200 million. At the same time in 2018 total assets were NOK 42 171 million, of which net loans to customers were NOK 38 729 million. The loan portfolio has been financed through the issuance of bonds totalling NOK 36 701 million, and through equity and drawing rights from Sparebanken Sør. At the end of Q4 2019, the company had at total paid-in capital of NOK 1 625 million, of which NOK 1 125 million was share capital and NOK 500 million related to share premiums.

Sparebanken Sør Boligkreditt AS has an overdraft facility of NOK 4 000 million with Sparebanken Sør that, at 31.12.2019, was drawn down by NOK 3 884 million. In addition, the company has a revolving credit facility with Sparebanken Sør, which can be used to refinance outstanding bonds.

Capital strength

At the end of Q4 2019, the net subordinated capital in the company was NOK 3 398 million, compared to NOK 3 168 million at the same time in 2018. This corresponds to a common equity tier 1 capital ratio / tier 1 capital ratio / total capital ratio of 20.2 percent (19.5 percent in 2018), while regulatory minimums requirements constitute 12.0 percent, 13.5 percent and 15.5 percent respectively. The capital adequacy ratio has been calculated based on the standard method in the Basel II - regulations. The Board of Directors considers the company's solidity and risk-bearing ability to be good. The company's Leverage Ratio was 7.3 percent at the end of Q4 2019.

Board of Director`s report

Risks

As a licensed mortgage company, Sparebanken Sør Boligkreditt AS is subject to a number of acts, regulations, recommendations and regulatory provisions. The objective of the company is to finance lending activities through the issuance of covered bonds with high rating. This means that Sparebanken Sør Boligkreditt AS strives to maintain risk at a low level. The company places emphasis on identifying, measuring and controlling risk elements in such a way that the market has high confidence in the company and that bonds issued by the company have high rating.

Therefore, the company's credit strategy and credit policy establish a framework of requirements imposed on borrowers, and collateral requirements for loans that may be taken on by the company. The Board of Directors considers the overall quality of the lending portfolio to be very good and the credit risk to be low.

The company's mortgages to customers are in Norwegian kroner (NOK) at floating interest rate. Financing is done by issuance of both floating and fixed interest rate bonds in NOK and EUR. Foreign currency debt is swapped to NOK and liabilities established at fixed rates are swapped to floating rates. Accounting of foreign currency debt and debt at fixed interest rates comply with the rules for hedge accounting.

The Board of Directors considers the overall market risk to be low.

The company issues covered bonds with the opportunity to extend the maturities by up to 12 months. In addition, financing needs are met by using equity and credit facilities with Sparebanken Sør. The Board of Directors considers the company's liquidity risk to be low. At 31.12.2019 the company satisfies the liquidity requirements imposed on European banks and finance companies (LCR - Liquidity Coverage Ratio).

A Management Service Agreement has been established with Sparebanken Sør that encompasses the supply of all necessary services for the operation of the company, and the Board of Directors considers the company's operational risk to be low.

Green Covered Bond

In October 2019 Sparebanken Sør Boligkreditt issued an inaugural euro benchmark covered bond with a seven years maturity. The deal was the fourth green covered bond issued out of Norway. The bond was issued under a Green and Sustainable Framework aligned with ICMA's Green Bond Principles. The proceeds of the first issuance were allocated to finance a portfolio of mortgages for energy efficient residential buildings in Norway.

Rating

Covered bonds issued by Sparebanken Sør Boligkreditt AS in NOK and EUR have been given an Aaa rating by Moody's.

Future prospects

The Board of Directors anticipates that the company's future operating business will be very satisfactory.

Sparebanken Sør Boligkreditt AS plans further acquisitions of loans from Sparebanken Sør, and the company intends to be able to issue new open covered bonds, aimed at investors in Norway or abroad.

Kristiansand, 5 February 2020

The Board of Directors for Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

Seunn Smith-Tønnessen
Member

Gunnar P. Thomassen
Member

Steinar Vigsnes
Member

Marianne Lofthus
Managing Director

NOK Thousand	Notes	31.12.2019	31.12.2018
Interest income, assets recognised at amortized cost	2.12	1 155 596	894 176
Interest income, assets recognised at fair value	2.12	62 785	26 056
Interest expenses	2.12	809 559	541 535
Net interest income	2	408 822	378 696
Commission income		186	170
Commission expenses		5 003	5 000
Net commission income		-4 817	-4 830
Net income from financial instruments	3	-8 237	-22 969
Personnel expenses		54	54
Depreciation on intangible assets		0	0
Other operating expenses		78 440	70 997
Total expenses		78 494	71 050
Profit before loss		317 275	279 847
Losses on loans and undrawn credit		3 543	-2 427
Profit before taxes		313 732	282 275
Tax expenses	9	78 453	70 565
Profit for the period		235 279	211 709
Other comprehensive income			
Profit for the period		235 279	211 709
Net change in value from basis swaps		-4 954	-19 511
Tax effect		1 239	4 878
Total profit for the period		231 563	197 076

Balance sheet

NOK Thousand			
	Notes	31.12.2019	31.12.2018
ASSETS			
Loans to and receivables from credit institutions	12	399 399	343 083
Net loans to customers	4.7	40 199 609	38 728 856
Bonds and certificates		3 108 909	2 625 663
Financial derivatives		505 900	421 929
Deferred tax assets		24 342	28 064
Other assets		41 340	23 217
TOTAL ASSETS		44 279 500	42 170 810
LIABILITIES AND EQUITY			
Debt to credit institutions	5.12	3 883 843	2 893 918
Debt incurred due to issuance of securities	10	36 700 771	36 014 179
Financial derivatives	3	209 942	0
Payable taxes		73 492	83 336
Other liabilities		9 254	8 743
TOTAL LIABILITIES		40 877 302	39 000 176
EQUITY			
Paid-in equity		1 625 000	1 625 000
Retained earnings		1 777 197	1 545 635
TOTAL EQUITY CAPITAL		3 402 197	3 170 635
TOTAL LIABILITIES AND EQUITY CAPITAL		44 279 500	42 170 810

Kristiansand, 5 February 2020

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Seunn Smith-Tønnessen
Member

Gunnar P. Thomassen
Member

Steinar Vigsnes
Member

Marianne Lofthus
Managing Director

NOK Thousand	31.12.2019	31.12.2018
Interest received	1 206 935	912 501
Interest paid	-765 568	-501 098
Operating expenditure	-82 800	-74 528
Changes in loans to customers	-1 464 284	-7 751 384
Income tax paid	-82 279	-68 099
Net cash flow from operating activities	-1 187 996	-7 482 607
Payments received, securities	3 367 929	2 070 130
Payments made, securities	-3 851 175	-3 886 976
Changes in other assets	56 577	205 150
Changes in deposits from credit institutions	990 050	-468 551
Changes in other liabilities	511	1 299
Net cash flow from current financing activities	563 892	-2 078 948
Paid-in share capital	0	600 000
Payments received, bond debt	9 960 155	15 559 155
Payments made, bond debt	-9 279 735	-6 407 473
Net cash flow from long-term financing activities	680 420	9 751 682
Net change in liquid funds	56 316	190 127
Liquid funds as at 01.01.	343 083	152 957
Liquid funds at the end of the period	399 399	343 083

8 Statement of changes in Equity

	Equity capital	Share premium reserve	Retained earnings	Total
NOK Thousand				
Balance 31.12.2016	525 000	500 000	1 165 913	2 190 913
Profit 2017	0	0	185 817	185 817
Balance 31.12.2017	525 000	500 000	1 351 730	2 376 730
Changes according to IFRS 9	0	0	-4 228	-4 228
Tax effect	0	0	1 057	1 057
Balance 01.01.2018	525 000	500 000	1 348 559	2 373 559
Share capital increase	600 000	0	0	600 000
Profit 2018	0	0	211 709	211 709
Other income/expenses	0	0	-14 633	-14 633
Balance 31.12.2018	1 125 000	500 000	1 545 635	3 170 635
Profit 2019	0	0	235 279	235 279
Other income/expenses	0	0	-3 716	-3 716
Balance 31.12.2019	1 125 000	500 000	1 777 197	3 402 197

1. ACCOUNTING POLICIES

The quarterly financial statements have been drawn up in accordance with International Financial Reporting Standards, IFRS, including IAS 34. Sparebanken Sør Boligkreditt AS is a part of the Sparebanken Sør Group and follows the same accounting principles as the Group. Please refer to the annual financial statements for 2018 (Note 1 – Accounting policies) for further details.

All totals in the financial statements are stated in thousands of NOK unless indicated otherwise. The company's financial statements are presented in Norwegian kroner, which is the functional currency.

A tax rate of 25 percent is assumed.

The quarterly financial statements have not been audited.

2. NET INTEREST INCOME

NOK Thousand	31.12.2019	31.12.2018
<i>Interest income recognised at amortised cost</i>		
Interest on loans to customers	1 155 139	893 303
Interest on loans to and receivables from credit institutions	458	872
Total interest income recognised at amortised cost	1 155 596	894 176
<i>Interest income recognised at fair value</i>		
Interest on certificates/bonds/interest-bearing securities	62 785	26 056
Total interest income recognised at fair value	62 785	26 056
Total interest income	1 218 381	920 231
<i>Interest expenses recognised at amortised cost</i>		
Interest on debt to credit institutions	68 066	65 552
Interest on issued securities	736 920	475 984
Other interest expenses	4 572	0
Total interest expenses recognised at amortised cost	809 559	541 535
Total interest expenses	809 559	541 535
Net interest income	408 822	378 696

3. NET INCOME FROM FINANCIAL INSTRUMENTS

NOK Thousand	31.12.2019	31.12.2018
Profit (loss) and changes in value from covered bonds	-6 878	-5 820
Net income from covered bonds	-6 878	-5 820
Change in value fixed rate bonds - hedge accounting	42 207	-317 017
Change in value derivatives fixed rate bonds - designated as hedging instruments	-19 852	314 715
Net income hedging	22 356	-2 301
Whereof effects from basis swaps (1)	17 808	-1 537
Profit (loss) buyback own bonds - amortised cost	-23 715	-14 848
Net other financial instruments and derivatives	-23 715	-14 848
Net income from financial instruments	-8 237	-22 969

1) The company has issued covered bonds in Euro that have been hedged using basis swaps. Change in the value of the basis swaps as a result of changes in market conditions, is presented as hedging-inefficiency. This ineffective portion is recognized in the income statement.

Basis swaps are derivative contracts used to convert obligations in foreign currency into NOK. Basis swaps are used when the company has entered into long term funding in international capital markets. These are hedging instruments, and assuming the underlying bond is held to maturity, the change in market value over the instruments duration equals zero. Accounting effects are therefore reversed over time.

4. LTV - LOAN TO VALUE

	31.12.2019	31.12.2018
Average debt to assets ratio in %	57.4 %	56.8 %
Portfolio divided into intervals of debt to assets ratio		
Less than or equal to 40 %	16.8 %	16.1 %
41 - 50 %	13.3 %	12.5 %
51 - 60 %	21.9 %	20.5 %
61 - 70 %	35.2 %	34.3 %
71 - 75 %	9.3 %	12.1 %
More than 75 %	3.6 %	4.4 %
Total	100.0 %	100.0 %

5. DEBT TO CREDIT INSTITUTIONS

Sparebanken Sør Boligkreditt AS has entered into an agreement with Sparebanken Sør for a credit facility of NOK 4 000 million. In addition, the company has revolving drawing rights with Sparebanken Sør, which can be used to refinance outstanding bonds.

6. CAPITAL ADEQUACY

Sparebanken Sør Boligkreditt AS implements the standard method for credit and market risk and the basic method for operational risk to calculate capital adequacy in accordance with the current capital adequacy rules - Basel II.

NOK Thousand	31.12.2019	31.12.2018
Equity capital		
Share capital	1 125 000	1 125 000
Share premium reserve	500 000	500 000
Other equity capital	1 777 197	1 545 635
Deductions	-3 825	-3 048
Net subordinated capital (common equity tier 1)	3 398 372	3 167 587
Minimum requirements for equity capital		
Credit risk	1 290 307	1 248 960
Market risk	0	0
Operational risk	55 424	53 614
CVA addition	0	0
Deductions	0	0
Total minimum requirements for equity capital	1 345 731	1 302 574
Risk weight balance (calculation basis)	16 821 638	16 282 175
Common equity tier 1 capital ratio	20.2 %	19.5 %
Tier 1 capital ratio	20.2 %	19.5 %
Total capital ratio	20.2 %	19.5 %
Leverage ratio	7.3 %	7.2 %

7. LOANS TO CUSTOMERS

NOK Thousand		
	31.12.2019	31.12.2018
Loans assessed to amortised cost		
Flexi-loans	8 558 533	8 214 867
Loans with installments	31 651 280	30 521 668
Gross loans	40 209 813	38 736 534
Impairment losses on lending	-10 204	-7 679
Net loans	40 199 609	38 728 856
Undrawn credit on Flexi-loans	3 463 330	3 195 853
Loans distributed to sectors and industries		
	31.12.2019	31.12.2018
Retail customers	40 160 075	38 698 242
Corporate customers *)	0	0
Accrued interests	49 738	38 292
Gross loans	40 209 813	38 736 534
Impairment losses on lending	-10 204	-7 679
Net loans	40 199 609	38 728 856

*) Loans to corporate customers are mortgage loans to customers in sector 8200.

Loans distributed by geographical areas

	31.12.2019		31.12.2018	
Vest-Agder	16 528 592	41.1 %	15 976 361	41.3 %
Aust-Agder	10 713 475	26.7 %	10 230 536	26.4 %
Telemark	4 004 896	10.0 %	3 788 416	9.8 %
Rogaland	1 299 637	3.2 %	1 106 520	2.9 %
Oslo	3 779 836	9.4 %	3 890 000	10.0 %
Akershus	1 726 918	4.3 %	1 649 156	4.3 %
Other counties	2 146 255	5.3 %	2 087 867	5.4 %
Total	40 199 609	100.0 %	38 728 856	100.0 %

8. DEFAULTED LOANS

NOK Thousand		
	31.12.2019	31.12.2018
Gross non-performing loans > 90 dager	9 469	0
Other non-performing loans	20 428	12 265
Total non-performing loans (stage 3)	29 898	12 265
Stage 3 impairment losses	958	1 337
Net non performing loans	30 856	10 928
Provision ratio impairment losses	3.2 %	10.9 %
Gross non-performing loans in % of gross loans	0.0 %	0.0 %

A non-performing loan is defined as the sum of a customer's total loan amount, if part of the loan has been overdrawn or has arrears exceeding NOK 1,000 for more than 90 days.

9. LOSSES ON LOANS

NOK Thousand	31.12.2019	31.12.2018
Changes in impairment losses for the period, stage 1	769	286
+ Changes in impairment losses for the period, stage 2	1 983	-3 696
+ Changes in impairments losses for the period, stage 3	790	982
= Total losses for the period	3 543	-2 427

NOK Thousand	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Loss provisions as at 01.01.2019	1 878	4 701	1 212	7 791
Transfers				
Transferred to stage 1	1 542	-1 514	-27	0
Transferred to stage 2	-92	112	-20	0
Transferred to stage 3	-4	-26	30	0
				0
Losses on new loans	1 250	2 406	89	3 745
Losses on deducted loans*	-497	-1 548	-41	-2 086
Losses on older loans and other changes	-1 430	2 553	-284	839
Loss provisions as at 31.12.2019	2 647	6 684	958	10 289
Loss provision for loans	2 592	6 670	942	10 204
Loss provisions for undrawn credit	55	14	16	85
Total loss provisions as at 31.12.2019	2 647	6 684	958	10 289

* Losses on deducted loans are related to losses on fully repaid loans and loans transferred between the company and the parent bank.

NOK Thousand				
Stage	Commitment		Calculated	
	amount	In %	loss	In %
1	41 353 691	95.4 %	2 647	25.7 %
2	1 984 043	4.6 %	6 684	65.0 %
3	29 898	0.1 %	958	9.3 %
Total	43 367 631	100.0 %	10 289	100.0 %

10. DEBT SECURITIES ISSUED AT 31.12.2019

ISIN Number	Ticker	Currency	Nominal value	Interest	Due date	Book value	Fair value
NO0010714058	SORB24	NOK	765 000	Floating 3M Nibor	24.06.2020	764 697	766 422
XS1383921803		EUR	500 000	Fixed 0.250 %	22.03.2021	4 964 530	4 983 686
NO0010778954	SORB27	NOK	5 000 000	Floating 3M Nibor	22.11.2021	5 013 383	5 054 684
XS1622285283		EUR	500 000	Fixed 0.125 %	30.05.2022	4 983 668	4 982 619
NO0010671597	SORB09	NOK	350 000	Fixed 3.85 %	13.02.2023	376 442	379 860
XS1775786145		EUR	500 000	Fixed 0.375 %	20.02.2023	5 056 646	5 039 001
NO0010832637	SORB28	NOK	5 000 000	Floating 3M Nibor	24.09.2025	4 992 782	5 033 649
XS1947550403		EUR	500 000	Fixed 0.50 %	06.02.2026	5 118 087	5 095 142
XS2069304033		EUR	500 000	Fixed 0.01 %	26.10.2026	4 859 352	4 903 069
NO0010670409	SORB08	NOK	500 000	Fixed 4.00 %	24.01.2028	571 184	576 572
TOTAL						36 700 771	36 814 704

11. COVER POOL COMPOSITION AND OC

NOK Thousand	Fair value	
	31.12.2019	31.12.2018
Loans secured by mortgages on residential properties	40 199 609	38 728 856
Deductions on ineligible loans	-84 101	-82 734
Pool of eligible loans	40 115 508	38 646 122
Sertificates and bonds	2 178 549	2 166 143
Financial derivatives	295 958	422 884
Total cover pool	42 590 016	41 235 149
Debt incurred due to issuance of securities	36 814 704	35 998 704
Collateralisation ratio (OC)	15.7 %	14.5 %

	Nominal value	
	31.12.2019	31.12.2018
OC based on nominal value - eligibles only	16,5 %	14,1 %
OC based on nominal value - total loans	16,7 %	14,3 %

12. RELATED PARTIES

NOK Thousand	31.12.2019	31.12.2018
Income statement		
Interest income from Sparebanken Sør on deposits	458	872
Interest expenses and commission from Sparebanken Sør on loans/credit	73 068	70 552
Interest expenses on bond debts to Sparebanken Sør	45 955	6 536
Paid administration fees to Sparebanken Sør	73 582	65 655
Balance sheet		
Bank deposit in Sparebanken Sør	399 399	343 083
Covered bonds owned by Sparebanken Sør	0	5 711 000
Loans/credit in Sparebanken Sør	3 881 408	2 891 358

QUARTERLY PROFIT TREND

NOK Thousand	Q4	Q3	Q2	Q1	Q4
	2019	2019	2019	2019	2018
Net interest income	111 580	98 555	96 634	102 053	98 970
Net other operating income	-19 003	4 060	15 166	-6 065	-7 397
Operating expenses	20 437	19 484	18 733	19 840	19 360
Profit before losses on loans	69 742	80 720	90 663	76 149	72 213
Losses on loans and undrawn credit	1 997	1 145	-244	645	-461
Profit before taxes	67 744	79 576	90 908	75 503	72 674
Tax expenses	16 945	19 900	22 727	18 881	18 165
Profit for the period	50 799	59 676	68 181	56 622	54 508
Liquidity coverage ratio (LCR)	1275 %	1575 %	1363 %	294 %	162 %
Total capital ratio	20.2 %	19.3 %	19.2 %	19.3 %	19.5 %
Leverage Ratio	7.3 %	7.0 %	7.1 %	7.1 %	7.2 %

DECLARATION IN ACCORDANCE WITH SECTION 5-6 OF THE NORWEGIAN SECURITIES TRADING ACT

The Board of Directors and CEO of Sparebaken Sør Boligkreditt AS hereby confirm that the company's financial statements for 2019 have been prepared in accordance with applicable accounting standards, and that the information provided in the financial statements provides a true and fair view of the company's assets, liabilities, financial position and overall result.

In addition, we confirm that the report provides a true and fair view of the company's development, result and position, together with a description of the most significant risks and uncertainty factors facing the company.

Kristiansand, 5 February 2020

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